RMP Cross Exhibit 21

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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IN THE MATTER OF THE REQUEST OF ROCKY MOUNTAIN POWER FOR A WAVIER OF THE SOLICITATION PROCESS AND FOR APPROVAL OF SIGNIFICANT ENERGY RESOURCE DECISION.	DOCKET NO. 08-035-35

TRANSCRIPT OF HEARING PROCEEDINGS

TAKEN AT:	Public Service Commission 160 East 300 South, Room 403 Salt Lake City, Utah
DATE:	July 17, 2008
TIME:	9:10 a.m.
REPORTED BY:	RENEE L. STACY, CSR, RPR

D 800-631-6989
[redacted]
EXHIBIT
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RMP Cross

A P P E A R A N C E S

COMMISSIONERS:

TED BOYER (Chairman)
RIC CAMPBELL
RON ALLEN

FOR ROCKY MOUNTAIN POWER:

GREGORY B. MONSON
MARK C. MOENCH
Attorneys at Law
STOEL RIVES
201 South Main Street, #1100
Salt Lake City, UT 84111

FOR THE COMMITTEE OF CONSUMER SERVICES:

PAUL H. PROCTOR
Assistant Attorney General
OFFICE OF THE UTAH ATTORNEY GENERAL
160 East 300 South
Fifth Floor
Post Office Box 140857
Salt Lake City, UT 84114-0857

FOR THE DIVISION OF PUBLIC UTILITIES:

PATRICIA E. SCHMID
Attorney at Law
OFFICE OF THE UTAH ATTORNEY GENERAL
160 East 300 South
Fifth Floor
Post Office Box 140857
Salt Lake City, UT 84114-0857

FOR THE UAE INTERVENTION GROUP:

GARY A. DODGE
Attorney at Law
HATCH JAMES & DODGE, PC
10 West Broadway
Suite 400
Salt Lake City, UT 84101

hearing from Mr. Peterson soon enough.

Okay. I think now it's time to hear your next witness, Mr. Monson. Is it Mr. Duvall?

MR. MONSON: It's Mr. Duvall.

GREGORY DUVALL

called as a witness and sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MONSON:

Q Mr. Duvall, could you state your name for the record?

A Yes. My name is Greg Duvall.

Q And could you provide your business address and position?

A My business address is 825 Northeast Multnomah, Suite 600, Portland, Oregon, and my position is director, long-range planning and net power costs.

Q And you filed two pieces of testimony in this case; is that right?

A That's correct.

And if I were to ask you the questions set forth in your testimony today, would your answers be the same as set forth in your prefiled testimony?

A Yes. Yes, they would.

Q Do you have a summary of your testimony?
A I do.
Q Could you present that?
A Yes.

In my direct testimony, I present the analysis performed by the Company to determine that the acquisition of the Chehalis plant is beneficial to the Company and its customers and is in the public interest. I used data and models from the 2007 IRP 2008 business plan, the 2012 RFP, and information that we acquired through due diligence.

I used the system optimizer model, which is an IRP model, to modify the business plan portfolio to include Chehalis beginning in 2012, and the result of that was the avoidance of front-office transactions through 2011 and the avoidance of a combined-cycle combustion turbine beginning in 2012.

This new portfolio is subject to analysis through the Company's hourly dispatch model, the planning and risk model, or PAR model.

The results of that showed a benefit to the Company or to the acquisition of the -- for the acquisition of the Chehalis plant of 142 to 197 million dollars.

In my rebuttal testimony, I clarified how my direct testimony addressed both the IRP and the 2012 RFP. I also describe the additional information that was provided by the Company through data responses, specifically responses to the DPU Data Request 6.2 where the Company provided the stochastic results and went through that analysis that included the Chehalis plant in comparison to the other resources in the 2012 RFP evaluation. I also responded to specific comments raised by the Committee, which were -- they are suggesting establishing a -- what I would call a higher prudence standard for the Chehalis plant as compared to plants -- other plants that we're not asking for preapproval, and state these conditions are inequitable, which include disallowance of capital improvements and indemnification by the Company for risks associated with the acquisition of the plant.

I also comment on the acquisition costs that were identified in Mr. Bird's rebuttal testimony, the 4.7 million in maintenance costs, which were already included in my analysis. I've also -- I had not included the 1.6 million, which was estimated for the outside professional services, or the 1.5 million greenhouse gas payment, but conclude that inclusion of those in my analysis would not have a material result -- or impact on the results of the analysis.

Finally, I conclude that, given the direct testimony I provided, the studies that I provided, along with the additional analysis that was requested through data responses, that that definitively shows that the Chehalis plant is in the public interest.

MR. MONSON: Mr. Duvall is available for questions.

CHAIRMAN BOYER: Okay. Thank you, Mr. Duvall.

Ms. Schmid, questions for Mr. Duvall?

MS. SCHMID: I think just perhaps one, as he -- Mr. Duvall already made one of my points in his summary.

CROSS EXAMINATION

BY MS. SCHMID:

Q Mr. Duvall, in your confidential rebuttal testimony at Line 118, you particularly describe the impact of these -- the 1.6 and the 1.5 million payments. Could you please tell us that precise description? It's the beginning of Line 118.

A I'm sorry? The description of the impact?

Q Yes. How did you describe the impact of these payments?

MR. DODGE: No questions.

CHAIRMAN BOYER: Mr. Allen?

COMMISSIONER ALLEN: No.

CHAIRMAN BOYER: And neither do I.

Thank you so much, Mr. Bodington, for participating.

THE WITNESS: Thank you.

COMMISSIONER BOYER: Okay. I think we're now to the point where we'll hear from the Committee's witnesses, but let's check with our reporter to see how she's doing.

THE REPORTER: Fine now.

CHAIRMAN BOYER: Okay. You'll give me the signal if you wish a break?

THE REPORTER: Yes. Thanks.

CHAIRMAN BOYER: Okay.

Mr. Proctor, please.

MR. PROCTOR: Thank you. The first Committee witness is Michele Beck.

DIRECT EXAMINATION

BY MR. PROCTOR:

Q Ms. Beck, would you state your position with the Committee of Consumer Services, please?

A I'm the director of the Committee of Consumer Services.

Q Your -- the comments that were prepared by you or under your direction have already been entered into evidence. Do you have a summary of those comments?

A Yes, I do.

Today I'll be presenting the Committee of Consumer Services' policy recommendations in this proceedings. These recommendations are also contained in the comments submitted, which were prepared either by me or under my direction.

Other parties have painted, I believe, an overly complicated picture of our positions, when, in reality, there are three simple policies the Committee is advocating.

The first is the legal challenge that we presented that our attorney, Mr. Proctor, has already mentioned. The second, since the Commission has not yet ruled on the Committee's legal argument, the Committee moved forward with its analysis and in formulating recommendations regarding the approval of the resource acquisition itself.

Based upon the report of our consultant, Phil Hayet, who is here today to also respond to questions, as well as our internal review, the Committee found the plant to be beneficial to consumers in the long run, but also found that the benefits are not as overwhelming as portrayed and that there are some identifiable risks associated with this plant.

Given these conditions, combined with the circumstance of acquiring the resource outside of the more rigorous process of the RFP, ratepayers need certain specific protections to ensure that that acquisition will result in just and reasonable rates; therefore, the Committee is recommending that approval of the acquisition should be accompanied by certain conditions, and it is our consultant, Mr. Hayet, who will discuss those certain conditions that were presented in his report.

And then the third issue is the request for an accounting order. The Committee has presented its view that such an accounting order is unnecessary in both the case of the acquisition premium and the exclusivity payment and that deferred accounting, in our view, would be improper in the case of the exclusivity payment in the event that the Company did not follow through on the acquisition and incurred that specific cost.

Further, we think it is important to note that the Commission did not specifically address this issue in its scheduling orders or any procedure for addressing these issues, nor did the Company file testimony or evidence in support of these requests; therefore, we think there's no basis for the Commission to grant the request at this time, but we do reiterate our request that the Commission explicitly state its intentions on how it will address the issue of the accounting order.

Q In addition to your summary, Ms. Beck, have you had an opportunity now to have reviewed the Company's July 11th rebuttal testimony?

A Yes, I have.

Q Do you have some comments with respect to that testimony?

A Equally brief comments, yes, I do. The first issue on that, in PacifiCorp's rebuttal comments, it suggests that the Committee would like to have it both ways in both enjoying the substantial present value of the reduction in revenue requirement by still wanting to impose conditions that would protect consumers from some of the risks associated with the acquisition of Chehalis.

First, the Committee notes that, while none of the parties in this proceeding has recommended against approval, it is also true that, in our view and understanding of their comments and testimony, none confirmed the Company's assertion of substantial benefits. Rather, our understanding of their positions, it appears that the consensus is that benefits were there, but to a lesser extent than characterized by the Company.

Second, it is important to remember that this plant is not being acquired through the RFP process. Because consumers do not have the protections that would come from comparing the plant to other specific alternatives, imposing other specific protections would be appropriate.

And, finally, the Committee notes that many of the benefits touted by the Company could be shown to be shareholder benefits, and our consultant, Mr. Hayet, will address that specific issue further, but, to the extent that shareholders do receive significant benefit from this resource acquisition, we think ratepayer protections are even more appropriate and warranted.

The second issue I'd like to address is in Mr. Bird's rebuttal testimony, Pages 17 to 20, which discusses the acquisition -- certain acquisition costs. Mr. Bird introduces new costs in this late phase of the proceeding. I believe that we share the

Division's view on these costs. There was the $4.7 million maintenance prepayment, the $1.6 million for outside consultants and lawyers, and then the $1.5 million for greenhouse gas mitigation, and an unknown sum for the true-up on working capital.

On Page 20, Mr. Bird specifically indicates they are asking for recovery of the 305 million purchase price as well as the 1.6 million, the 1.5 million, and the unknown working capital described. In my reading, I do not see that he specifically states that they're seeking recovery now of the 4.7 million, but he does indicate that will be included in rate base, so I presume that to also be a specific request for recovery.

As the Division stated, the Committee has also not had the opportunity to fully review these new costs and object to the introduction in the rebuttal phase of the case. This is a specific example of the type of concern we have already raised in terms of costs arising that are different from those that were assumed in the Company's analysis showing benefits from the plant.

If the Committee -- pardon me. If the Commission chooses to grant preapproval, it must be clear what specific costs have been preapproved. Any additional costs beyond those that are specifically approved should either be disallowed or be required to be presented and fully supported in a subsequent rate case subject to a full prudence review, as would be true for any utility cost or expense.

In this case, costs introduced in the final phase of prefiled testimony cannot be seen to have been fully supported and should not be considered for preapproval.

And then finally, on Page 15 of Mr. Bird's rebuttal testimony, he quotes the Oregon IE report, both the one dated June 18th, 2008 and a supplemental report dated July 2nd, 2008. His chosen quotes, I believe, gives the impression that the Oregon IE has given unequivocal support for the acquisition of Chehalis, and I'd like to supplement his quotes with one other.

On Page 8 of the June 18th report, in the section entitled "Policy Points," it states -- and here's the beginning of the quote -- "first, we agree with PacifiCorp that this waiver request is not and should not be a substitute for a full prudence review. If PacifiCorp was found later, in a prudence review, to have been fundamentally wrong in its assessment of the offsetting costs we discussed above, that would weigh against prudence and cost recovery. Indeed, for purposes of cost recovery, we suggest that PacifiCorp be held within some reasonable bounds to its assumptions made here as if it was offering a pay-for-performance PPA. This would serve to further reduce risks to ratepayers."

The Committee acknowledges the very clear differences between the Oregon and the Utah proceedings with respect to preapproval. Nonetheless, we believe it's noteworthy that the Oregon IE's conclusion is similar to the Committee's, incorporates specific conditions to reduce the risk to ratepayers.

MR. PROCTOR: Ms. Beck is available for cross examination.

CHAIRMAN BOYER: Thank you, Ms. Beck.

Does the Company have cross examination for Ms. Beck?

MR. MONSON: Just a couple of questions.

CROSS EXAMINATION

BY MR. MONSON:

Q Ms. Beck, you just talked about the benefits, and I think you characterized that other parties didn't agree there were substantial benefits to the acquisition of Chehalis, and I just want to certain risks that you've identified. In your opinion, are there some other benefits of this acquisition in terms of lower -- actually, an avoidance of construction kinds of risk and, to some extent, operational risk, inasmuch as there's some data on -- even though it's been operated as a merchant plant, there's still data available on its characteristics. Are those -- are those -- are there benefits, I guess, first, and then, secondly, did you consider those in your analysis?

THE WITNESS: Yes, I think there are benefits, and yes, we considered it.

CHAIRMAN BOYER: Okay. Thank you.

Redirect, Mr. Proctor?

MR. PROCTOR: No. Thank you.

CHAIRMAN BOYER: Okay. Thank you, Ms. Beck.

Mr. --

MR. PROCTOR: Hayet.

CHAIRMAN BOYER: Mr. Hayet? Okay.

PHIL HAYET

called as a witness and sworn, was examined and testified as follows:

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DIRECT EXAMINATION

BY MR. PROCTOR:

Q Mr. Hayet, if you could state your name and by whom you're employed.

A My name is Phil Hayet. My Company is Hayet Power Systems Consulting.

Q Mr. Hayet, you were retained in this matter and have filed with the Commission -- or the Committee, and which is now filed with the Commission, a report pertaining to your analysis of the Chehalis purchase; is that correct?

A Yes, that's correct.

Q Do you have a summary of your findings and analysis that you'd like to present?

A I do.

On June 20th, 2008, comments that I wrote concerning my review of Rocky Mountain Power's request to acquire SUEZ Energy Generation's Chehalis plant were filed by the Committee of Consumer Services in this proceeding.

My evaluation primarily focused on the reasonableness of PacifiCorp's economic evaluation and assessed the condition of the plant based on a review of documents through discovery.

The purpose of my review was to determine whether I believe that PacifiCorp's evaluation was reasonable and would provide benefits to Utah ratepayers.

My ultimate conclusion was that, while the acquisition of the Chehalis plant appears to be a reasonable investment, given that the plant can be required -- can be acquired at a substantial discount to the cost to construct a new combined-cycle unit, I found many issues that raised red flags and caused me to be concerned that the value of the plant is not quite the bargain that PacifiCorp purports it to be.

I believe that the benefits of the plant will be virtually assured from the perspective of the utility shareholders, as they will almost immediately begin to earn a return on and return of their invested capital as soon as the next rate case is complete.

However, the benefits of the Company's ratepayers are more speculative. While I believe Chehalis almost certainly will be valuable to the Company's shareholders right from the start, I also believe that it will offer value to PacifiCorp's customers, but over a longer term. Based on the company's economic evaluation, customers will incur higher costs with Chehalis for the first seven years and then will realize positive benefits after that.

Customer benefits are more speculative than shareholder benefits and it may take even longer for customers to realize benefits if the Company encounters additional costs associated with acquiring and operating the Chehalis plant that were not incorporated in the Company's economic analysis.

Because the Chehalis acquisition is taking place without the usual solicitation process, which is a more ideal approach to ascertain market value, and because I have identified numerous concerns about the Chehalis plant, I believe that the Commission should establish conditions that share the risk of the acquisition in a reasonable manner between the Company and the ratepayer.

Concern regarding Chehalis. Not all costs have been incorporated in the economic evaluation, and additional costs may arise that have not been accounted for. Costs not accounted for in the economic evaluation include purchase of the spare transformer from SUEZ at a cost of .6 million, partial payment for the GE services agreement in the amount of 4.7 million, payment of 1.6 million for outside consultants and lawyers associated with the acquisition, integration capital costs of 1.2

million, other capital costs of 2 million, greenhouse gas mitigation fees in Washington of 1.5 million.

The Company pointed out that the location of Chehalis is not optimal to the east side due to transmission limits. Acquiring or building a physical resource on the west side of the system when resources are needed on the east side increases physical delivery risk in Utah.

When the new Path C transmission upgrade is completed in 2010, a significant amount of Jim Bridger capacity will be accessible by the east side. The risk that arises would occur in the event that there is an outage of the Jim Bridger capacity or of the transmission line itself.

PacifiCorp points out that one potential solution to mitigate this identified risk will be PacifiCorp's Gateway transmission project which will add an additional amount of capacity from Nevada to Utah. However, to date, it's my understanding that there's no commitment regarding owning this transmission line.

Due diligence concerns. I've done a complete evaluation of the due diligence results and identify some concerns as follows: First, I point out the Company's generation team found and stated the following: Although there are several risk concerns, an additional investment in the plant will be necessary. No fatal flaws were uncovered that would indicate the Company should not pursue purchase of the facility. We have heard today Mr. Bird reiterate this statement.

At the same time that the Company makes the statement, the Company's own evaluation states other issues that they do point out through the due diligence assessment. For example, potential compressor blade failures. A partial solution may involve derating the capacity of the unit during the summer period.

If this potential compressor blade failure occurs, it could result in costs of 16 to 20 million dollars, not accounting for the replacement power costs that might be incurred.

Chehalis has been designed for an emergent owner. The due diligence reports stated that there were a number of original design issues that have impacted or continue to impact the plant's operational flexibility, reliability and performance. These issues are not deal killers, as the Company states, but do have an operational impact and create some additional risk.

In general, the original plant design included very little equipment to support routine cycling, and these are the Company's own comments. This included no auxiliary boiler, no startup vacuum pump, limited consideration for cycling duty, and no dew point heater. There are no building structures to cover equipment or provide for adequate storage. Single hundred percent boiler feed pump, no emergency diesel generator, additional integration costs, and there will be requirements for additional capital costs.

Mr. Bird's rebuttal testimony seems to imply that these issues do not pose significant risks compared to risks faced by other PacifiCorp resources such as Currant Creek or Lakeside; however, I have never heard PacifiCorp explain that there are a number of design issues associated with those units and that can impact their operational flexibility, reliability, and performance.

Concerning the environmental assessment, the Company's environmental assessment report expressed concern that Chehalis' environment program appeared to be very weak prior to December of 2006, that documentation of records for this period were not readily available for review at the site, and that a review of external audit reports indicates a general inattention to detail by the operations and maintenance groups.

I now turn attention to the review of the economic evaluation. The value Chehalis brings is as follows: The Company will incur higher capital costs in the 2008 to 2012 period due to adding a new resource prior to the need for new capacity in 2012, but during this period, these higher capital costs will be partially offset because Chehalis' fuel costs will be a bargain compared to the cost to purchase energy that it will avoid, which will lead to fuel cost savings. This is per the analysis that the Company has performed.

Overall, customers will incur a higher cost of $31 million with Chehalis between 2008 and 2012; however, beginning in 2013 and continuing through 2026, there will be large savings in capital costs due to the acquisition of Chehalis since its capital cost is much lower than the capital cost of the 2012 east side CCGT unit that can be eliminated due to the Chehalis acquisition.

Overall, net benefits are 173 million during that later period. The sum of the 31 million in higher costs during the early period with the 173 million in lower costs during the latter period results in the total Chehalis benefit of 142 million on an MPV basis.

That was one of the analyses that Mr. Duvall presented. He also presented another case in which the assumption of the displaced CCGT unit was an even higher cost, and that led to, as I recall, a $192 million benefit.

Having described the concerns that I have, the -- there is one other concern that I would point out that I analyzed, and that had to do with the Bodington analysis. Mr. Bodington conducted a fair analysis of the Chehalis plant in a way that seems reasonable, which is conducted by many parties in this type of situation.

The issue that I raise with Mr. Bodington's analysis had to do with the assumption of an 80 percent capacity factor running the Chehalis plant. I -- in all the analyses that the Company conducted, 80 percent was significantly higher than the capacity factor that Chehalis has ever showed. It showed more on the order of about a 43 percent capacity factor.

Therefore, I believe that, while Mr. Bodington's analysis may be fairly equivalent to the value that the Company has decided that it will pay for the plant, I think it's possible that the Bodington analysis slightly overstates the value that Mr. Bodington determined.

In terms of conditions, given our concerns that we have with things such as the environmental, the additional potential capital costs, concerns about the operation of -- the potential operational issues of Chehalis, we recommend that -- Chehalis may well be a sound purchase; however, I've identified enough issues concerning Chehalis that caused me to recommend placing conditions on the acquisition.

These include the 8.7 million exclusivity payment. Customers should not be made to bear the cost of paying for the exclusivity payment in the event that PacifiCorp decides to back away from the deal with SUEZ. For any capital costs above the requested 305 million that may arise between now and closing, PacifiCorp should be responsible to pay that amount, especially given that this is the amount the economic evaluation was based on.

But in the alternative that disallowing these costs if the Commission shall choose, another option is that any additional costs should be presented and fully supported in a subsequent rate case subject to a full prudence review.

Capital improvement costs. The Company may need to spend 3 million for capital improvements. I recommend that PacifiCorp should be limited to recover no more for capital improvement costs than the amount that has been included in PacifiCorp's economic valuation or in its due diligence analyses.

I'm willing to accept that this condition be limited to the first three years of operation of the plant, but, again, in the alternative, at the Commission's choosing, they -- I feel it may be appropriate to allow the Commission to consider disallowing these costs, and any additional costs should be presented and fully supported in a subsequent rate case subject to a full prudence review.

The Committee has concerns regarding the maintenance prepayment costs of 4.7 million, outside consultant lawyer fees, 1.6 million, and greenhouse gas mitigation fees, 1.5 million, which are all costs that were either not included in the Company's economic evaluation or were only identified at the time the Company filed its rebuttal testimony on July 11th.

The Committee believes that there is justification to disallow these costs because they have not been all carefully evaluated; however, in the alternative, these additional costs should be presented and fully supported in a subsequent rate case subject to a full prudence review, again, if the Commission prefers that option.

The serious compressor blade failure issue. A risk of a serious compressor blade failure exists at Chehalis, and if it does, it could cost as much as 16 to 20 million to repair the unit. The cost would be higher after accounting for any replacement costs that PacifiCorp would bear -- would incur.

I recommend that for a period of at least three years, PacifiCorp should bear the cost of any serious compressor blade failure; however, the Commission may want to consider devising some cost sharing that could be implemented between shareholders and customers.

Foggers. Operation of the foggers will lower the value of Chehalis, potentially eliminating as much as 34 megawatts of capacity during the summer period. For purposes of ratemaking, I recommend that PacifiCorp should be required to use the full seasonal capacity ratings of the unit without accounting for the fogger deration.

Environmental concerns. I believe that

customers should be held harmless for any environmental issues that may arise in the future for the period prior to when PacifiCorp acquired the plant. I am willing to accept that this condition could expire after three years. In fact, I heard today from Mr. Bird that it's possible that there is an indemnity clause already that would protect customers, so that may not be an issue whatsoever.

Finally, uneconomic generation. Given the Committee's position regarding uneconomic generation that has arisen in most recent rate cases, I recommend that in all future rate cases the Company must be required to test to make sure that Chehalis is dispatched in the Company's ratemaking models such that no uneconomic generation occurs.

And that completes my comments.

MR. PROCTOR: Mr. Hayet is available for cross.

CHAIRMAN BOYER: Thank you, Mr. Hayet.

Does the Company have cross examination for Mr. Hayet?

MR. MONSON: No questions.

CHAIRMAN BOYER: Thank you.

Ms. Schmid?

MS. SCHMID: No questions.